Clubbing of Income

Dr. Niti Saxena

Cases where Clubbing Applies

1) Transfer of income without transfer of asset [Sec. 60] :– The income from the asset would be taxable in the hands of the transferor. Section 60 is applicable if the following conditions are satisfied:

- The taxpayer owns an asset
- The ownership of asset is not transferred by him.
- The income from the asset is transferred to any person under a settlement or agreement.
- If the above conditions are satisfied, the income from the asset would be taxable in the hands of the transferor

2) *Revocable transfer of assets* (sec 61):- Income from such asset is taxable in the hands of the transferor. 'Revocable transfer' means the transferor of asset assumes a right to re-acquire asset or income from such an asset, either whole or in parts at any time in future, during the lifetime of transferee. If the following conditions are satisfied section 61 will become applicable.

- An asset is transferred under a "revocable transfer",
- The transfer for this purpose includes any settlement, or agreement

Then any income from such an asset is taxable in the hands of the transferor andnot the transferee (owner).

3) **REMUNERATION FROM A CONCERN IN WHICH SPOUSE HAS SUBSTANTIAL INTEREST [SEC 64 (1) (ii)]**

- Concern could be any form of business or professional concern. It could be a sole proprietor, partnership, company, etc.
- Substantial interest - An individual is deemed to have substantial interest, if he/she (individually or along with his relatives) beneficially holds equity shares carrying not less than 20 per cent voting power in the case of a company or is entitled to not less than 20 percent of the profits in the case of a concern other than a company at any time during the previous year.

- If the following conditions are fulfilled this section becomes applicable.
- ❑ If spouse of an individual gets any salary, commission, fees etc(remuneration) from a concern
- ❑ The individual has a substantial interest in such a concern
- ❑ The remuneration paid to the spouse is not due to technical or professional knowledge of the spouse. Then such salary, commission, fees, etc shall be considered as income of the individual and not of the spouse.

4) INCOME FROM ASSETS TRANSFERRED TO SPOUSE [SEC. 64(1) (IV)]

Income from assets transferred to spouse becomes taxable under provisions of section 64 (1) (iv) as per following conditions:-

- The taxpayer is an individual
- He/she has transferred an asset (other than a house property)
- The asset is transferred to his/her spouse
- The asset is transferred without adequate consideration. Moreover there is no agreement to live apart.
- **If the above conditions are satisfied, any income from such asset shall be deemed to be the income of the taxpayer who has transferred the asset.**

5) INCOME FROM ASSETS TRANSFERRED TO SON'S WIFE [SEC. 64 (1) (VI)]

Income from assets transferred to son's wife attract the provisions of section 64(1) (vi) as per conditions below:-

- The taxpayer is an individual.
- He/she has transferred an asset after May 31, 1973.
- The asset is transferred to son's wife.
- The asset is transferred without adequate consideration.

In the case of such individuals, the income from the asset is included in the income of the taxpayer who has transferred the asset

6)INCOME FROM ASSETS TRANSFERRED TO A PERSON FOR THE BENEFIT OF SPOUSE [SEC. 64(1)(VII)]

- Income from assets transferred to a person for the benefit of spouse attract the provisions of section 64 (1) (vii) on clubbing of income. If:
- The taxpayer is an individual.
- He/she has transferred an asset to a person or an association of persons.
- Asset is transferred for the benefit of spouse.
- The transfer of asset is without adequate consideration.

In case of such individuals income from such an asset is taxable in the hands of the taxpayer who has transferred the asset.

7) INCOME FROM ASSETS TRANSFERRED TO A PERSON FOR THE BENEFIT OF SON'S WIFE [SEC. 64 (1) (VIII)]

Income from assets transferred to a person for the benefit of son's wife attract the provisions of section 64 (1) (vii) on clubbing of income. If,

- The taxpayer is an individual.
- He/she has transferred an asset after May 31, 1973.
- The asset is transferred to any person or an association of persons.
- The asset is transferred for the benefit of son's wife.
- The asset is transferred without adequate consideration.
- In case of such individual, the income from the asset is included in the income of the person who has transferred the asset.

8)INCOME OF MINOR CHILD (SEC. 64 (1A)

- All income which arises or accrues to the minor child shall be clubbed in the income of his parent (Sec. 64(1A), whose total income (excluding Minor's income) is greater. However, in case parents are separated, the income of minor will be included in the income of that parent who maintains the minor child in the relevant previous year.
- **Exemption to parent [Sec10 (32)]**
- An individual shall be entitled to exemption of Rs. 1,500 per annum(p.a.) in respect of each minor child if the income of such minor as included under section 64 (1A) exceeds that amount. However if the income of any minor child is less than Rs. 1,500 p.a. the aforesaid exemption shall be restricted to the income so included in the total income of the individual.

Section 64(1A) is not applicable in case of income of minor child from following sources, the income of minor child is not clubbed with the income of his parent:

- Income of minor child on account of any manual work.
- Income of minor child on account of any activity involving application of his skill, talent or specialized knowledge and experience.
- Income of minor child (from all sources) suffering from any disability of the nature specified under section 80U

What is corporate reporting?

Corporate reporting means reporting financial and non-financial data to stakeholders. These reports can take many forms, depending on their goal, including audit reporting, financial reporting, corporate governance and responsibility reporting, and more.

Annual reports provide a general view of company data, and can include people data, financial information, and much more. But you can also take a more narrow and focused approach to corporate reporting with avenues like sustainability reports or financial statements.

These reports do not exclude one another. In most cases, it is better to use more than one type. The true end goal of corporate reporting should always be to communicate the value that a company creates. This includes the impact it has on people, the environment, and society as a whole.

Benefits of corporate reporting

1. Increased transparency

Corporate transparency is a win for everyone, especially employees, customers, and stakeholders. It increases trust and accountability and helps everyone improve and make better decisions.

Employees are asking for transparency right from the recruitment process. A Deloitte survey showed that, in 2020 and 2021, Gen Z and Millennial candidates tended to choose jobs based on the company’s ethics.

Once they start working for a company, people want that transparency to continue. Pay transparency is one key priority, but more and more people also want to understand the impact the company they work for is making on social, economic, and environmental causes.

2. Compliance with regulations

Corporate reporting is fundamental to the business, and essential in maintaining strong relationships with shareholders and stakeholders. There are myriad rules and regulations businesses must comply with, and they can vary by region, business size, and more.

In August 2020, the U.S. Securities and Exchange Commission (SEC) adopted a broad set of amendments to the disclosure requirements under Regulation S-K. The expanded human capital disclosure requirements requires companies include human capital resources as a disclosure topic.

In the European Union, the Corporate Sustainability Responsibility Directive (CSRD) became law on November 28, 2022 and covers a wide range of reporting, including a comprehensive set of standard measures that include the key areas of Environment, Social, and Governance (ESG).

3. Improved decision-making processes

Corporate reporting isn't only about presenting data. It's also about analyzing it and using it to improve your decision-making processes. Through these reports, you can see what's working and what isn't, and find those areas where changes must be made.

4. Improved risk management

Any business comes with risks. The key is knowing what these risks are and how to respond to them. Corporate reporting is an excellent tool for identifying risks and opportunities.

By looking at metrics and benchmarking against the competition and the market at large, you can gain a better understanding of what could go wrong in your business and how to reduce those risks.

OBJECTIVES OF CORPORATE FINANCIAL REPORTING :

The objectives of financial reporting given by Financial Accounting Standard Board (FASB) are summarized as follows:

1. Financial reporting should provide information that is useful to investors and creditors and other users in making rational investment, credit and similar decisions. The information should be useful to both, the present and potential investors.

2. Financial reporting should provide information about the economic resources of an enterprise the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners equity) and the effects of transactions event, and circumstances that change resources and claims to those resources.

3. Financial reporting should provide information about the enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise.

4. Financial reporting should provide information about how management of an enterprise obtains and spends cash, its borrowing and repayment of borrowing, capital transactions

including cash dividends and other distributions of enterprise resources to owners, and other factors that may affect an enterprise's liquidity or solvency.

5. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibilities to owners (shareholders) for the use of enterprise resource entrusted to it.

6. Financial reporting should provide information that is useful to management and directors in making decisions in the interest of owners

What is the Annual Report?

An annual report is a document published by the company for its various stakeholders, internal and external, to describe its performance, financial information, and disclosures related to its operations. These reports have become legal and regulatory requirements over the years. For example, US companies have been mandated to publish such reports by the Securities and Exchange Commission (SEC) since the early 1930s.

Components of Annual Reports

Across global markets, Annual reports have different formats and components; this happens due to statutory requirements in different economies. Following are some of the components in general:

1. Chairman statement
2. Information on corporate governance
3. Financial highlights
4. Management discussion and analysis
5. Shareholding pattern, management/board of directors' information
6. Detailed and audited financial statements
7. Statement of financial position
8. Income statement
9. Statement of Cashflows
10. Statement of Changes in Equity
11. Notes to financial statements
12. Usage of accounting policies and changes, if any
13. Other information or disclosure.

Annual Report	Financial Statements
Contains a broader range of information beyond financial data, including management's discussion and analysis, corporate governance, executive compensation, industry outlook, and other non-financial information	Primarily focused on presenting a company's financial performance, position, and cash flows, including the balance sheet, income statement, cash flow statement, and notes to the accounts
Provides an overview of the company's business operations and strategies, along with forward-looking statements about the company's future prospects	Generally limited to historical financial data and does not include forward-looking information or other non-financial disclosures
Typically prepared on an annual basis, but may also include interim reports or other periodic updates	Prepared for a specific period, usually a fiscal year, and reported quarterly or annually
Often targeted at a wider audience, including shareholders, investors, analysts, regulators, customers, and employees	Primarily targeted at investors, lenders, and other external stakeholders who require financial information for decision-making purposes
May be presented in various formats, such as print or digital reports, webcasts, or videos, depending on the company's communication strategy	Follows a standardized format and reporting requirements under applicable accounting standards and regulations

Board of Directors Reports under Companies Act 2013

The Director's report is a financial document generated by the Board of Directors that is required by the Companies Act, 2013 for bigger limited companies to file at the end of the fiscal year. Further, Financial reporting is an important aspect of business that outlines the status of the firm and its adherence to a set of financial, accounting, and corporate social responsibility requirements. In this post, we shall discuss the substance of the Directors' report.

Need of Board of Directors Reports

- The directors of a business must prepare the directors' report at the conclusion of each fiscal year, according to Section 134(3) of the Companies Act, 2013. In addition to the boards' report, also known as the directors' report, promotes more corporate openness. Further, the information in the directors' report allows shareholders to make educated decisions. Moreover, the information in the directors' report assists shareholders in understanding:
- The company's ability to develop and expand.
- Whether the company's finances are in excellent shape.
- How the firm is performing inside its market, as well as how the market as a whole is performing.

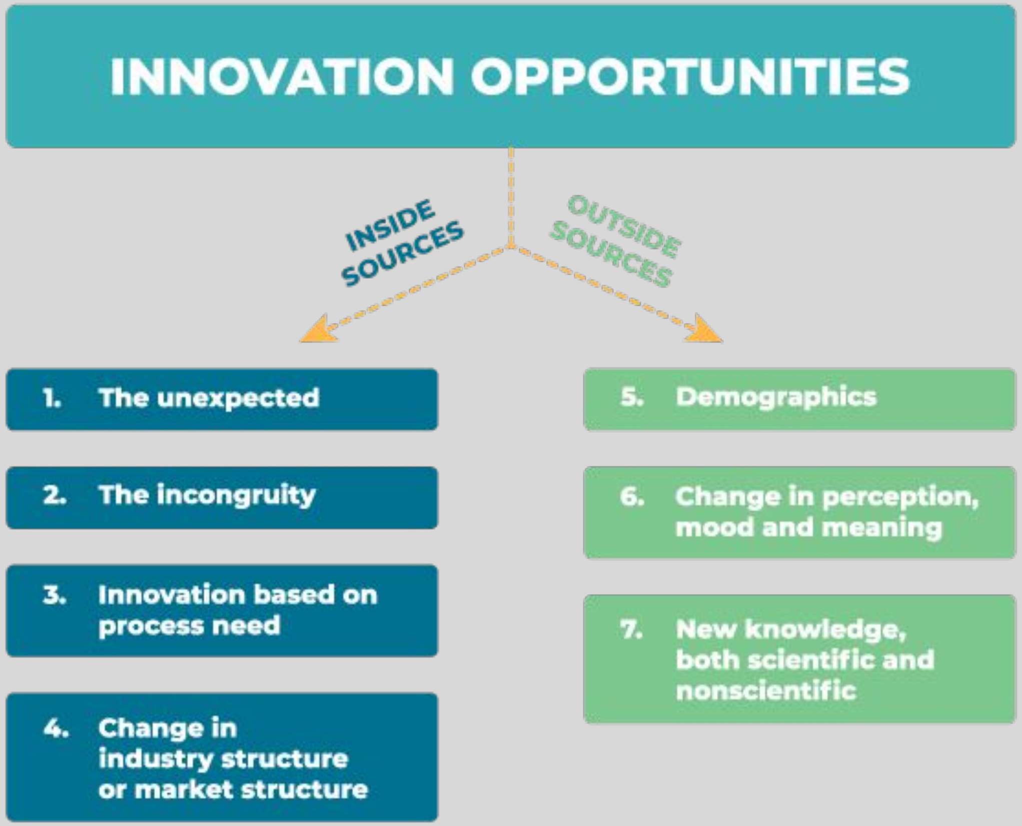
- Whether the corporation is adhering to accounting standards, financial restrictions, and corporate social responsibility mandates.

Content of Board of Directors Reports as per Companies Act, 2013
Count of board meetings
Statement of Directors’ Responsibilities, as required by Section 134(5) of the Act
Other than those reportable to the Central Government, details on frauds revealed by auditors under Section 143(12) of the Act
Section 149(6) of the Act requires independent directors to make a statement of their declaration.
The board’s comments or explanations on every reservation, qualification, or unfavourable disclaimer or remark made by the auditor in their report and, in practise, by the company secretary in their secretarial audit report.
Details of guarantees, loans, or investments issued in accordance with Section 186 of the Act
Particulars of agreements or contracts involving related parties, as defined in Section 188(1) of the Act
The current condition of things at the firm
The sums that the corporation intends to carry into reserves, if any.
The amount that the corporation believes should be paid as a dividend, if any.
Between the conclusion of the fiscal year to which the financial statements pertain and the date of the report, if any, material obligations and developments impacting the company’s financial status occurred.
The preservation of technology absorption, energy, expenditure, and foreign exchange profits in accordance with Rule 8(3) of the Companies (Accounts) Rules, 2014.
A declaration demonstrating the execution and development of a risk management policy, including the identification of risk components that, in the judgement of the boards, may endanger the company’s survival, if any.
Details on the firm’s policy on Corporate Social Responsibility (CSR) actions conducted during the year, as adopted and developed by the corporation.

INNOVATION & CREATIVITY

Unit-3

7 sources of Innovation



1. **Unexpected success or failure :** Understanding the reasons for the unexpected success or failure of a product generates opportunities to innovate. Take the case of IBM, which wanted to sell accounting machines to banks, but discovered that it was libraries that wanted to buy these machines. IBM's Univac, designed for advanced scientific work, became popular in business applications such as payroll. Unexpected product failures can also give companies new ideas that may help them to come up with something that the market likes.

2. **The incongruity between what actually happens and what was supposed to happen :** If things are not happening as they should, there is scope to innovate. For example, in industries which are growing, but where the margins are falling, there is tremendous potential for innovation. Similarly, when companies continue to work at improving something to reduce costs but fail to do so, an innovator can look at other options to cut costs. This is exactly how container ships emerged by focusing on the ship's turnaround time rather than fuel efficiency.

3. The deficiencies in a process, that are taken for granted : If a process is inefficient or suffers from a big gap, there is scope to innovate. Sometimes, a process that is widely used may have certain deficiencies. An innovator, by thinking out of the box, may come up with a new idea that removes this deficiency. Pilkington's float glass manufacturing process, for example, paved the way for the development of glass with a smooth finish.

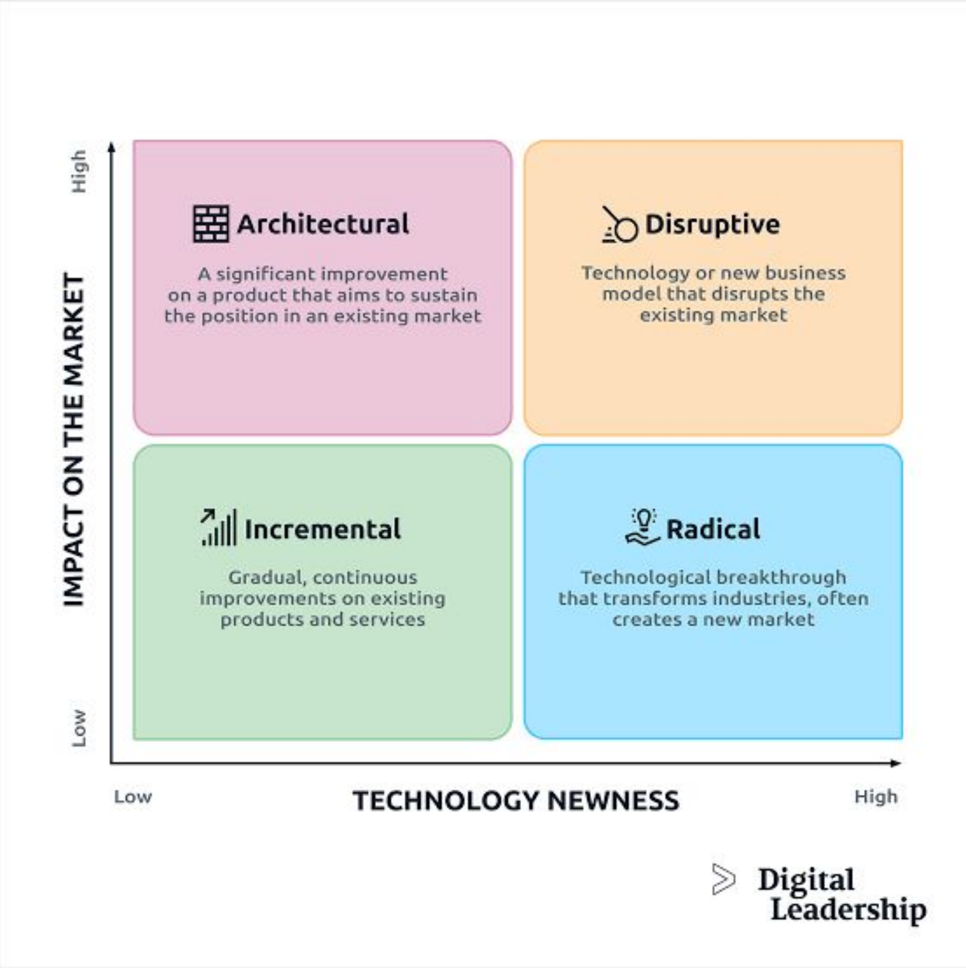
4. **The changes in industry or market structure that catch everyone by surprise :** The emergence of new, fast-growing segments provides scope for innovation. Innovators can serve the needs of these segments. The success of the small floppy disk drive manufacturers had much to do with the emergence of new customer segments who wanted smaller and lighter disk drives. According to Drucker, "New opportunities rarely fit the way the industry has always approached the market, defined it, or organized to serve it. Innovators therefore have a good chance of being left alone for a long time."

5. Demographic changes : Demographic changes result in new wants and new lifestyles that call for new products. The Japanese pioneered robotics because they anticipated the rising levels of education and the consequent shortage of blue-collared workers. In recent years, the ageing of Japan and Europe has put pressure on governments to control healthcare expenses. This has fuelled the rise of generic drugs. Demographic changes provide innovation opportunities that are the most rewarding and the least risky, as the trends are easier to predict.

6. Changes in perception : By changing the common perception of people, new needs can be created. For example, capitalizing on people's concern for health and fitness, a booming industry has emerged for exercise and jogging equipment.

7. The changes brought about by new knowledge : New knowledge can be used to develop innovative products. Innovations of this sort usually combine many sorts of knowledge. The development of the computer, for example, was facilitated by a combination of binary arithmetic, calculating machine, punch card, audion tube, symbolic logic and programming. Such innovations are also risky, because there is usually a gap between the emergence of new knowledge and its conversion into usable technology and another gap before the product is launched in the market. Drucker has mentioned, “Contrary to almost universal belief, new knowledge is not the most reliable or most predictable source of successful innovations. For all the visibility, glamour and importance of science-based innovation, it is actually the least reliable and least predictable one.”

Types of innovation



1. Incremental Innovation

Existing Technology, Existing Market

One of the most common forms of innovation that we can observe. It uses existing technologies within an existing market. The goal is to improve an existing offering by adding new features, changes in the design, etc.

Example

The best Example for incremental innovation can be seen in the Smartphone market where the most innovation is only updating the hardware, improving the design, or adding some additional features/cameras/sensors, etc.

2. Disruptive Innovation

New Technology, Existing Market

Disruptive innovation is mostly associated with applying new technologies, processes, or disruptive business models to existing industries. Sometimes new technologies and business models seem, especially in the beginning, inferior to the existing solutions but after some iterations, they surpass the existing models and take over the market due to efficiency and/or efficacy advantages.

Examples

Amazon used Internet-Technologies to disrupt the existing industry for book-shops. They had the existing market for books but changed the way it was sold, delivered and experienced due to the use of disruptive technologies. Another example was the iPhone, where existing technologies in the market (Phones with buttons, keypads, etc.) were replaced with touch-interface-centered devices combined with intuitive user interfaces.

- **3. Architectural Innovation**
- **Existing Technology, New Market**
- Architectural innovation is something we see with tech giants like Amazon, Google, and many more at the moment. They take their domain expertise, technology, and skills and apply them to a different market. This way they can open up new markets and expand their customer base.
- **Examples**
- Especially digital ecosystem orchestrators like Amazon and Alibaba use this innovation strategy to enter new markets. They use existing expertise in building apps, platforms, and their existing customer base to offer new services and products for different markets. A recent example for this: Amazon recently entered the medical care field.

- **4. Radical Innovation**
- **New Technology, New Market**
- Even it is the stereotypical way most people see innovation; it is the rarest form of them all. Radical innovation involves the creation of technologies, services, and business models that open up entirely new markets.
- **Example**
- The best example of radical innovation was the invention of the airplane. This radical new technology opened up a new form of travel, invented an industry, and a whole new market.

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES

People at work at different levels and departments of the organisation plus their inherent abilities, acquired knowledge and skills as exemplified in their talents and aptitudes.

Also identified by other terms like :-

- Personnel
- Human Assets
- Human Capital

CHARACTERISTICS :

- Heterogeneous
- Product of Biological inheritance
- Dynamic
- High Potential to grow
- Wider than the term personnel

CONCEPT & NATURE OF HRM

Personnel Mgt. is recruitment, selection, development, utilisation of and accommodation to human resources by organisation.

According to Gary Dessler,

“ Human Resources Management is the process of acquiring, training, appraising and compensating employees and attending to their labour relations, health, safety and fairness concerns.”

HRM AS REINCARNATION OF PERSONNEL MGT.

- Human Resources Mgt considers personnel or employees as human resources and attaches them utmost importance.

- Besides performing personnel functions, it is also concerned with creating beter human relations and developing of Human resources.

NATURE OF HRM :

- Concerned with Human Element.
- Integral part of Mgt.
- Pervasive function.
- Wide Range of Activities
- Development of Human Resources.
- Motivation
- Continuous function
- Service or staff function
- Multi – disciplinary approach.

RESPONSIBILITY OF HRM

- Recruitment and Selection of right personnel for right jobs.
- Training programmes.
- Maintaining Personnel records.
- Motivate (incentives)
- Good human relation.

Dimensions	HRM	Personnel Mgt.
• Philosophy	Valuable Assets	Treats people as tools.
• Nature	Integration with corporate Mgt.	Procurement & training of personnel.
• Communication	Fast, both upward & downward	Slow & downward
• Decision Making	Fast	Slow
• Approach	People oriented	Work – oriented.
• Job design	Team – work	Division of labour
• Mgt’s Role	Transformational (inspire)	Transactional (reward / punish)
• Level of Trust	High	Low
• Interest	Organisation is important as employees	Organisation is uppermost.
• Concern	Concern of all managers from top to bottom	Concern of personnel Mgt.

OBJECTIVES

- Procurement of right people at right job
- Training to increase productivity
- Effective utilisation of human resources
- Ensure development
- To identify and satisfy the needs of individual
- Better human relations
- Welfare facilities

Heckshes Ohlin Theory of International Trade

- Primary work was done in 1919 by Eli Hekshes & Bertil Ohlin (student) added in 1933

- Helps ~~Protect~~ predict pattern of trade.
- Evaluate trade b/w two countries having different Natural resources & specialities.

- It states countries rich in labour export labour intensive goods and countries rich in capital export capital intensive goods.

⇒ Why do we trade?
Because of difference in relative Prices of different goods in different countries.

↓

Cost difference → Diff. Factor Endowment in different countries.

↓

Every Country has different factor endowment means:-
- Some have more capital
- Some have more labour

∴ Countries who have capital in abundant will export capital intensive goods & vice-versa.

Assumptions:

- 2 countries A & B
- 2 factors K & L (Capital & Labour)
- 2 goods X & Y

[X → Capital Intensive Good]

[Y → Labour Intensive Good].

- Perfect competition in factor & commodity markets.
- Constant returns to scale
- No transport costs.

If, $\left(\frac{K}{L}\right)_A > \left(\frac{K}{L}\right)_B$, A → K abundant, B → L abundant

$\therefore \left(\frac{P_K}{P_L}\right)_A < \left(\frac{P_K}{P_L}\right)_B$

which states that :-

A → export K intensive good X.

B → export L intensive good Y.

Example :—

US → K is easily available in abundance & Labour is quite expensive so they will export Machinery...

lily India :- export labour intensive good like cotton.

Comparative Advantage Theory / Ricardian Theory of International Trade.

- Ability of an Individual, company, or a country to produce at a lower opportunity cost, than its competitors.
- We can trade even if there ~~exists~~ isn't any absolute advantage.

In an hour	A		B	
	10 cakes or 30 pies	1:3	10 cakes or 10 pies.	1:1
Halftime →	5 cakes + 15 pies		5 cakes + 5 pies = 10 cakes 20 pies	

If A devotes whole one hour on pies :- 30 pies. & B devotes whole one hour on cakes: 10 cakes

	Cotton		Laptop
India	20	or	10
Japan	16	or	2

	For 1 tonne of cotton	For 1 laptop
India	$\frac{1}{2}$ / 0.5 laptop given up.	2 tonnes of cotton
Japan	$\frac{1}{8}$ / 0.125 Laptop given up	8 tonnes of cotton given up.

India → To produce 1 tonne of cotton → $\frac{10}{20}$ = 0.5 laptop

Japan → To produce 1 tonne of cotton → $\frac{2}{16}$ = 0.125 laptop

India → To produce 1 laptop → $\frac{20}{10}$ → 2 tonnes of cotton

Japan → To produce 1 laptop → $\frac{16}{2}$ → 8 tonnes of cotton.

Lowest opportunity cost wins.

INTERNATIONAL HUMAN RESOURCE MANAGEMENT

International HRM vs. HRM

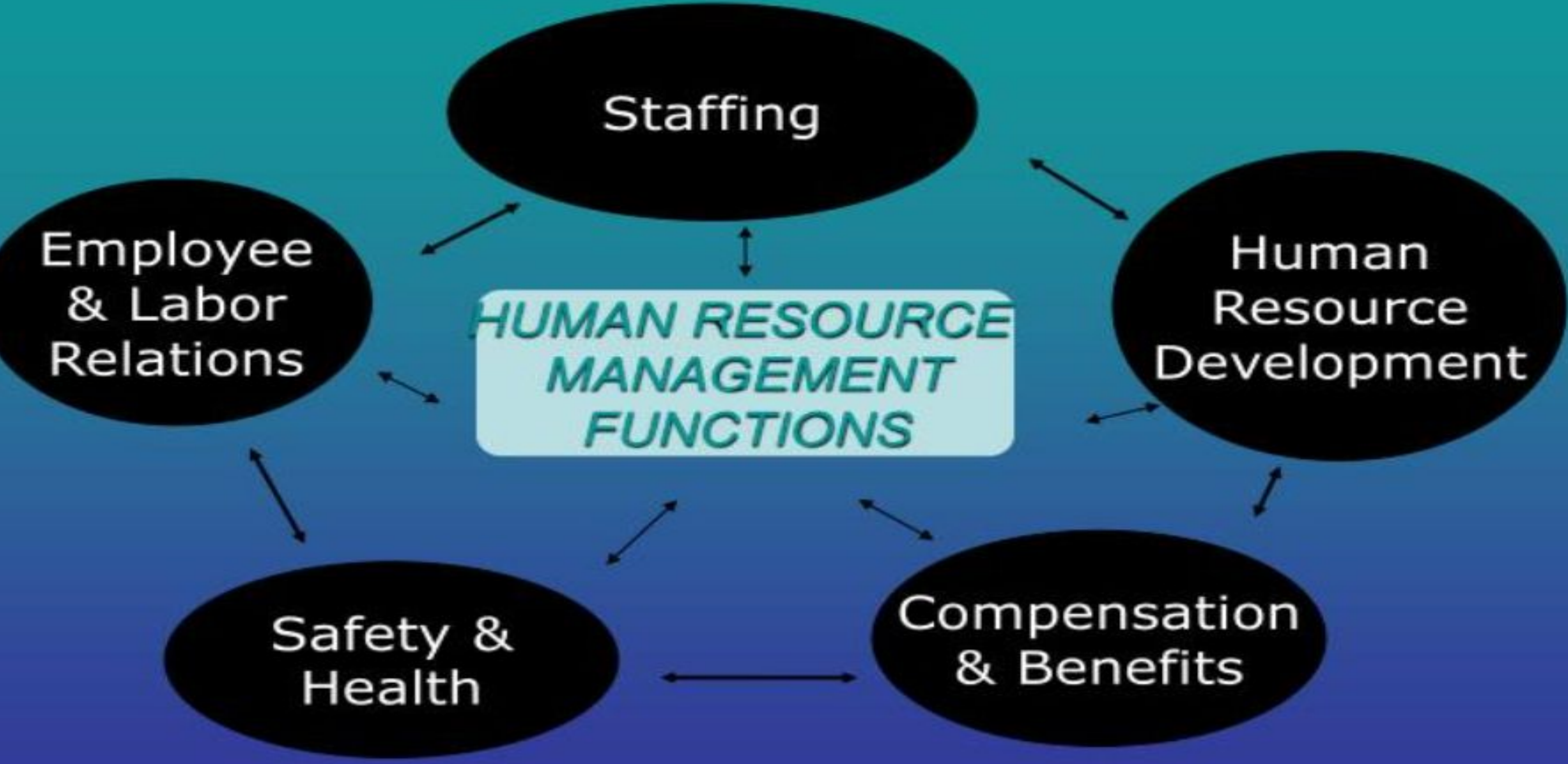
What is HRM?

Human Resource Management (HRM) is a general term used to describe a variety of functions aimed at effectively managing an organization's employees or "human resources"

The goal of HRM is to assist organizations to achieve their strategic goals by attracting and retaining qualified employees, and managing them effectively while ensuring that the organization complies with all appropriate labor laws

HRM professionals oversee the "people" side of an organization including compensation and benefits, career development, training, hiring, and many other functions

Typical HRM Functions



International Human Resource Management

- International Human Resource Management is the procurement, allocation, utilization, and motivation of human resources in the international context

- Strategic IHRM is the human resources management issues, functions, policies and practices that result from the strategic activities of the multinational enterprise and the impact it has on the international concerns and goals of that organization

HRM versus IHRM

- The basic functions (procurement, allocation, utilization and motivation) of HRM and IHRM are the same!
- The main difference between HRM and IHRM lies in their different levels of inherent complexity
- IHRM is characterized by a comparatively, and normally considerably, higher level of inherent complexity and uncertainty than HRM

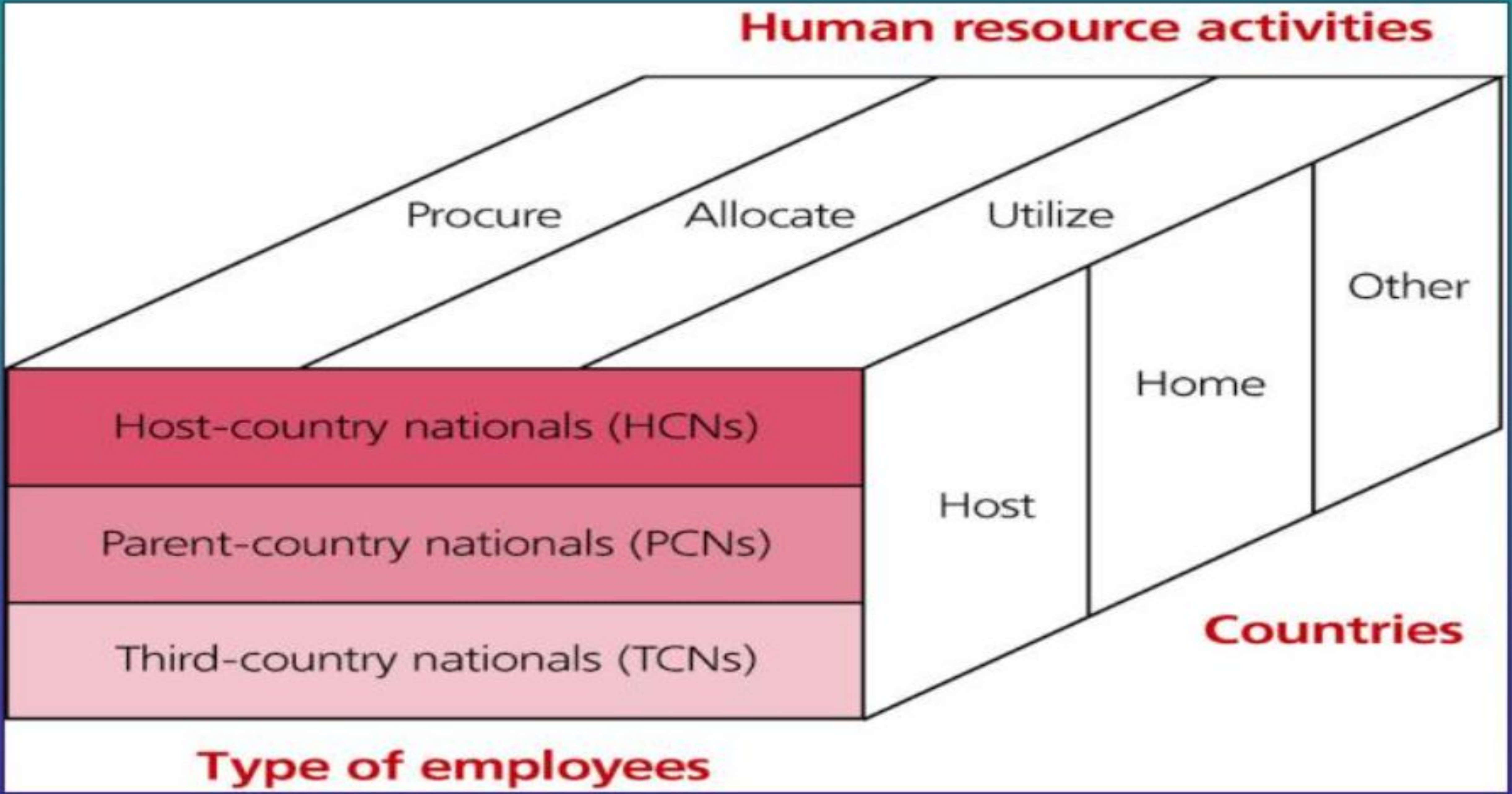
The Internationalization of HR Management

- Globalization
- Freer movement of the factors of production (capital, labour, information)
- Growth of international trade and investment
- Opening of new markets (e.g. East Europe)
- Emergence of trading blocks
- Competition and cost reduction pressures
- Multiculturalism, immigration

Challenges of IHRM

All organizations – particularly smaller and medium-sized entities with comparatively smaller resource bases - operating in an international, culturally heterogenous context, face numerous challenges in regard to effectively managing their human resources to some extent

A Model of IHRM



Some Terms Defined

- **Host Country National (HCN):** Belongs to the Country where the subsidiary is located
- **Parent Country National (PCN):** Belongs to the Country where the firm has its headquarters
- **Third Country Nationals (TCN):** Belongs to any other country and is employed by the firm

IHRM: The Dimensions of Complexity

Peter Dowling specifies the following six factors that differentiate IHRM from HRM:

- More HR activities
- The need for a broader perspective
- More involvement in employees' personal lives
- Changes in emphasis as the workforce mix of expatriates and locals varies
- Risk exposure
- More external factors

IHRM: The Dimensions of Complexity (More HR Activities – (1))

IHRM typically requires numerous additional activities to be performed, which are unnecessary in a national (domestic) context. Important Examples:

- Taxation considerations - Are there tax incentives / disincentives? National taxation systems tend to differ significantly and taxes may still be due after elapse of an assignment period

- International Relocation and Orientation – Predeparture training, immigration and travel details, housing, shopping, medical care and schooling information, determination of compensation and allowances

IHRM: The Dimensions of Complexity (More HR Activities – (2))

- **Administrative Services for Expatriates – Provision of assistance to expatriates for dealing with various administrative issues, for example, acquisition of visas and work permits for expatriates**

- **Host-Government Relations – Ensuring compliance with the regulations and procedures mandated by the government of the host country**

- **Language Translation Services – Providing translation support for expatriates where and when needed**

IHRM: The Dimensions of Complexity (Need for a Broader Perspective)

The diversity of employees – i.e. human resources – necessitates a broader perspective for organizations operating internationally as opposed to those operating solely nationally

For instance, should employees from the organization's parent country receive special benefits for taking on international assignments, while the organization's employees from other countries be denied these same benefits?

IHRM: The Dimensions of Complexity (More Involvement in Employees' Personal Lives)

For organizations operating nationally, their involvement in their employees' personal lives is normally confined to issues such as arranging and administering employee insurance programmes and relocation assistance if a shift from a workplace in one city to another becomes necessary

For organizations operating internationally, a comparatively significantly higher of support may, and often is, required, for instance, helping find suitable accommodation for the expatriate's family to live, helping find a school for his or her children to attend and arranging recreational programmes

IHRM: The Dimensions of Complexity (Risk Exposure)

The element of "expatriate failure" is comparatively higher for organizations operating internationally. The costs of expatriate failure can be quite substantial:

a) Direct Costs: Salary, training, travel and relocation
b) Indirect Costs: Loss of the organization's market share, reputational damage

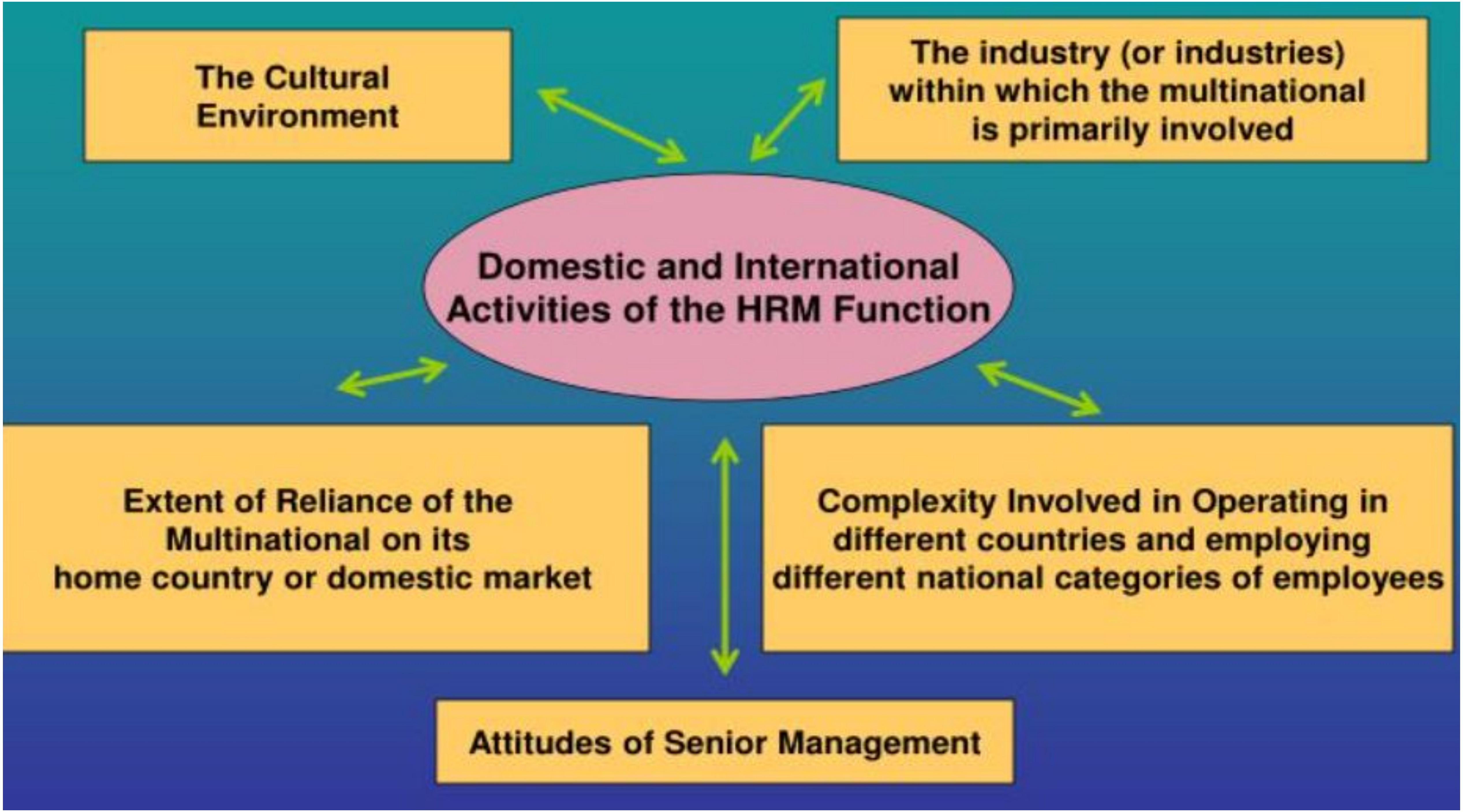
Other high-cost risk factors are terrorism and political instability, e.g. targeted bombings, assassinations, civil and social upheavals, military conflicts

IHRM: The Dimensions of Complexity (More External Influences)

- Government-Driven Factors, for example, affirmative action programmes intended to increase employment for, and increase the skill level of their nationals

- Local business practices (is it acceptable to accept "gifts" to facilitate operations? (ethical issues)

- Local regulations, especially in regard to labour, health and safety, taxation, the environment


The Cultural Environment
The industry (or industries) within which the multinational is primarily involved
Domestic and International Activities of the HRM Function
Extent of Reliance of the Multinational on its home country or domestic market
Complexity Involved in Operating in different countries and employing different national categories of employees
Attitudes of Senior Management

IHRM and the Cultural Environment (1)

Culture is a distinct way of life, set of values, attitudes and behaviours which members of a society internalize over time and through the process of socialization. Some visible manifestations of culture are dress, food, language, hygiene, attitudes towards other members of society and to time and work

IHRM requires an appreciation of the prevailing differences in the cultural environments in which an organization operates. There is now a broad awareness, that culture is an important impact determinant in the HRM equation

Differences between the parent and host country cultures can be a source of conflict

IHRM and the Cultural Environment (2)

The "Culture Shock" refers to the situation in which an expatriate is unable to adjust emotionally to a new cultural environment in which he or she is expected to work. Some typical manifestations of a culture shock are:

- Psychological disorientation
- Negative feelings for the host country and its people
- Strong desire to return to one's home country

IHRM and the Type of Industry

Multidomestic Industries – Competition is essentially national. Examples are retailing, distribution and insurance

- HRM basically domestically oriented, IHRM services may be only occasionally required

Global Industries – Competition is essentially multinational and interlinked. Examples are the aircraft and semi-conductor industries

- HRM has ideally to reflect the local environments while seeking to maintain some overall global consistency

IHRM and Reliance on the Home-Country Domestic Market

The size of a country's domestic market may have considerable influence on the extent to which its multinationals are oriented. Multinationals based in countries with large domestic markets offering the benefits of high consumer demand, such as India, would be inward-looking and their HR practices structured accordingly. Small countries (e.g.: Netherlands, Sweden, Switzerland, Canada), who may be largely reliant on foreign markets for their growth, may have different (i.e. more outwardly-oriented) HR practices

IHRM and Attitudes of Senior Management

A "global mindset" is strongly recommended by which the development of a globally-oriented staff in an organization is encouraged and facilitated by senior management

Typical Reasons for failure to develop a global mindset by organizations are:

- Ethnocentrism
- Inward-Orientedness
- Lack of Information
- Cultural Insensitivity

Production Planning and Control

Factors affecting PPC

1) Market Forecast :

It will indicate future trends in demand for manufactured products.

Policies, Plans for an inc. or decrease in manufacturing activity are based upon the market forecast
&
in turn affect the prodn planning & control.

2) Sales Order:

It is a rewrite of the customer order specifying what has been purchased.

Variation or changes in sales order will drastically affect prodn planning & control.

3) Standard Process Sheet :-

Prepared by processed engineering group.

It is the ~~basic~~ source of basic data which may include → time required for processing
Machine to be used.

For eg:- if any machine is under breakdown, Standard Process Sheet will be distributed which in turn affect PPC.

4) Load Charts →

These charts are prepared for each workstation or machine in the plant. ~~or~~ ~~may~~

5) ~~Span~~ Scheduling – (providing time-table for manufacturing activities.)

ensures that parts, sub-assemblies and finished products are completed as per the required ~~dat~~ delivery dates.

6) Volume of prodn :-

the amount & intesity of production planning is determined by the volume of manufacturing ~~process~~ products

7) Types of Manufacturing

→ Job shop : planning may be informal
→ Continuous manufacturing : involves the problem of line balancing so that no shut down occurs.

8) Type of Product :

→ Complex and seasonal products require much greater care and [problems in productn planning & control for these products is much more simple for regular products.

[when an operation is to be performed or when work is to be done]
[~~specify the starting and finishing time for an operation~~].
~~[Time Table of Prodn]~~

Elements of PPC :

This ... focuses on planning horizon that is divided into equal time-period (called time-buckets)

④ Scheduling :-

ⓐ Master Schedule :-
is a scheduling strategy that dictates ~~when and~~ how much of each product is going to be produced
(based on demand, capacity & inventory available)

ⓑ Shops / Manufacturing Schedules :-
(Detailed Scheduling)

(fixes a times and a date to each operation in a continuous timeline rather than in time buckets.

③ Routing :-
deciding the path (route) for work and the sequence of operations.
→ it fixes in advance :-
ⓐ quantity & quality of product.
ⓑ Men, machine, materials etc to be used.
ⓒ type, number & sequence of manufacturing operations.
ⓓ place of prod^n.

4 Specific Areas to ensure effectiveness of PPC

1. Delivery → No. of delivery on time
No. of delayed deliveries.

2. Inventory levels →
indicators of efficiency of inventory mgt
✓ ~~Value of avg inventory held annually.~~
✓ Value of obsolete inventory
✓ value of inventory turnover ratio.
(No. of time inventory is sold / used)

3. Prodn Mgt → comparison of planned with actual.

No. of overtime hours worked
Machine utilisation ratio.

4. Carrying cost.

Set-off & Carry Forward of LOSSES

Dr. Niti Saxena

Process of Set-off & Carry Forward

The process of setting off of losses and their carry forward may be covered in the following steps:

Step 1	**Inter-source adjustment under the same head of income**
Step 2	**Inter-head adjustment in the same assessment year. Step 2 is applied only if a loss cannot be set off under Step 1.**
Step 3	**Carry forward of loss. Step 3 is applied only if a loss cannot be set off under Steps 1 and 2.**

Inter-Source Set Off [Section 70]

Loss arising from one source of income under a head can be set off against income arising from any other source under the same head, except in the following cases –

Loss	Set-off allowed against
Long-term capital Loss	**Long-term Capital Gain**
Speculation business loss	**Speculation business gain**
Loss from business of owning and maintaining race horse	**Income from business of owning and maintaining race horse**
Loss from lottery, card games, gambling betting etc.	**Income from lottery, card games, gambling betting etc.**

Inter-Head Set-off [Section 71]

Loss arising under one head of income can be set off against income under any other head, except in the following cases –

1. Loss arising under the head capital gain cannot be setoff from income under any other head

2. Losses under the head "Profits and gains of business or profession" cannot be set off against income under the head "Salaries".

Provisions relating to carry forward and set off of losses

Sec.	Loss to be carried forward	Income against which the loss can be setoff	No. of years for which it can be carried forward
71B	Loss from house property	Income from house property	8 years from the end of the relevant A.Y.
72	Losses under 'Profits & Gains of Business or Profession', except speculation business loss.	Profits of any Business/Profession (including speculation business profits also)	8 years from the end of the relevant A.Y.
73	Losses in speculation business.	Income from speculation business	4 years from the end of the relevant A.Y.
74	Losses under the head Capital gains.	Capital Gains	8 years from the end of the relevant A.Y.
74A	Loss incurred in activity of owning and maintaining race horses.	Income from owning and maintaining race horses	4 years from the end of the relevant A.Y.

SOURCES OF FINANCE

Dr. Niti Saxena

SOURCES OF FINANCE

The sources from which a business meets its financial requirements can be classified as follows:

I. **According to period/ Time:**

a) **Long term sources**, viz., shares, debentures, long term loans etc.

b) **Short term sources**, viz., advances from commercial banks, public deposits, advances from customers and trade creditors, etc.

SOURCES OF FINANCE: CONTD…

I. **According to ownership:**

a) **Own capital**, viz., share capital, retained earnings and surpluses etc.

b) **Borrowed capital**, viz., debentures, public deposits and loans, etc.

I. **According to source of generation:**

a) **Internal sources**, viz., retained earnings, depreciation funds, etc.

b) **External sources**, viz., securities such as shares and debentures, loans etc.

SOURCES OF FINANCE: CONTD…

However for the sake of convenience, the different sources of funds can be classified into three categories:

a) Security Financing

Issue of Equity and Preference Shares

Issue of Debenture

b) Loan Financing.

SECURITY FINANCING

SOURCES OF FINANCE: CONTD…

Security Financing

Under security financing the following methods are used:

1. Issue of Shares (Equity Shares and Preference Shares)

2. Issue of Debentures

SECURITY FINANCING: CONTD…

Preference Shares

Preference shares are those shares which carry the following preferential rights over other classes of shares:

1. A Preferential right in respect of a fixed dividend. It may consist of a fixed amount (say Rs. 50,000 p.a.) or a fixed rate.

2. A Preferential right as to repayment of capital in case of winding up of the company in priority to other classes of shares.

PREFERENCE SHARES: CONTD…

Preference shares can be of following types:

1. Cumulative or Non-Cumulative;
2. Participating or non-participating;
3. Redeemable or Irredeemable, etc.

MERITS OF PREFERENCE SHARES

1. Flexible financing arrangement
2. Kind of Perpetual loan
3. Assets are free from financial charge
4. Advantage of Trading on equity
5. Does not materially disturb the existing pattern of control
6. Cheaper as compared to equity shares

DEMERITS OF PREFERENCE SHARES

1. Preference dividend not deductible for taxation purpose.

2. Dilute the claim of equity shareholders over the assets of the company

3. May pave the way for insolvency in case directors continue to pay dividend in spite of lower profit to maintain their attractiveness.

EQUITY SHARES

Equity shares are those shares:

1. Which are not preference shares;
2. Which do not carry any preferential right;
3. Which rank after preference shares for the purpose of payment of dividends and repayment of capital;
4. On which rate of dividend payment is not fixed; and
5. Which carry high amount of risk

MERITS OF EQUITY SHARES

1. Do not impose any burden on the company
2. Kind of perpetual loan
3. No charge against the assets
4. Less burden on financial statement as no provision for repayment of equity shares is to be made.

DEMERITS OF EQUITY SHARES

1. Costly as compared to preference shares or debentures
2. Control of company can be easily manipulated by cornering the shares by a group of shareholders
3. Conservative management avoid issuing additional equity shares
4. Reduces the capacity to trade on equity
5. Cost of underwriting and distributing equity shares is generally higher as compared to preference shares and debentures.

METHODS OF ISSUING SHARES

Shares can be issued:

1. At par;
2. On Premium; and
3. On Discount

ISSUE OF SHARES AT PREMIUM

A company can always issue shares at a premium, i.e., for a value higher than the face value of shares whether for cash or for consideration other than cash. However, according to section 78 of the Companies Act, the amount of such premium shall have to be transferred by the company to the security premium account and it can be used by the company only for the following purposes:

1. For the issue of fully paid bonus shares to the members of the company;
2. For writing off preliminary expenses of the company;
3. For writing off expenses of, or commission paid or discount allowed on issue of shares of debentures;
4. For providing premium payable on redemption of redeemable preference shares or debentures of company.

ISSUE OF SHARES AT DISCOUNT

A company can issue shares at a discount, i.e., for a value less than the nominal value of shares, subject to the following conditions laid down by section 79 of the Companies Act:

1. Shares to be issued at discount must be of a class already issued.
2. Issue must be authorized by an ordinary resolution of the company.
3. Issue must be sanctioned by the Company Law Board (CLB) and must take place within 2 months after the date of sanction of CLB.
4. One year must have passed since the date on which the company was allowed to commence business.
5. Resolution must specify the maximum rate of discount..
6. Every prospectus relating to the issue of shares shall disclose particulars of the discount allowed on the issue of shares or that amount which has not been written off at the date of the issue of prospectus.

SWEAT EQUITY SHARES

The term sweat equity shares means the equity shares *issued* by the company to employees or directors at a discount for consideration other than cash or for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

RIGHT ISSUE OF SHARES

- If an existing company intends to raise additional funds, it can do so by borrowing or issuing new shares. One of the most common methods for a public company to use is to offer existing shareholders the opportunity to subscribe further shares. This mode of financing is called ‘rights issues’.

- The existing shareholders have right to entitlement of further shares in proportion to their existing shareholding. A shareholder who does not want to buy the right shares, his right of entitlement can be sold to everyone else.

- The price of rights shares will be generally fixed above the nominal value but below the market price of shares.

- Section 81 of the Companies Act provides for the further issue of shares to be first offered to the existing members of the company, such shares are known as ‘Right Shares’ and the right of the members to be so offered is called the ‘right of pre-emption’.

BONUS ISSUE OF SHARES

- Dividend payment is an important way through which the market price of share and hence the wealth of the shareholders can be maximized.

- Dividend payment affects the liquidity position of the firm. There is another way of utilization of profits to reward the shareholders, without however affecting the current liquidity position of the firm. This is known as script dividend or issue of bonus shares by capitalization of profits.

MOTIVES FOR ISSUE OF BONUS SHARES

- The company is able to satisfy the expectations of the shareholders and also simultaneously is able to preserve the liquidity of the company.

- Helps a company to streamline its capital structure and to bring its paid up share capital in line with the capital employed in the business.

- Bonus shares is a capital receipt and it is not taxable in the hands of the issuing company as well as the shareholders.

- Issue of bonus shares increases the goodwill of the company in the capital market and build a confidence among the investors and thus helps raising additional funds in future.

ISSUE OF DEBENTURES

MEANING OF DEBENTURE

- A debenture is a document issued by a company as an evidence of a debt due from the company with or without a charge on the assets of the company.

- The certificate is issued by the company under its seal acknowledging a debt due by it to its holders.

- According to Companies Act, the term debenture includes "debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not."

TYPES OF DEBENTURES

Debentures can be of following types:

1. Convertible or Non-Convertible Debentures;
2. Redeemable or Non-Redeemable Debentures;
3. Secured or Unsecured Debentures

METHODS OF ISSUING DEBENTURES

Debentures can be issued at:

1. Par; or
2. Discount; or
3. Premium

DIFFERENCE BETWEEN DEBENTURES AND SHARES

1. Shares are part of the capital of the company while debentures constitute loan to the company.

2. Payment of interest to debenture holders is made prior to payment of any dividend to equity shareholders.

3. Even as regards return of principal, debenture will have a prior claim over share capital.

4. Debentures usually have a charge over the assets of the company while shares have no charge over the assets.

DIFFERENCE BETWEEN DEBENTURES AND SHARES: CONTD

5. Interest on debentures is paid whether the company is earning profit or not, dividend is paid only when company is earning profit.

6. Debentures carry a fixed rate of interest while dividend rate on shares is not fixed.

7. Debentures do not carry any voting right. On the other hand, shareholders being the owners of the company carry voting rights.

8. Unlike shares, debentures can be purchased and redeemed by the company unless they are perpetual or irredeemable.

MERITS OF DEBENTURE

1. Debenture provide funds for a specific period, hence company can appropriately adjust its financial plan to suit its requirement.

2. Provides finance without diluting the control.

3. Enables company to take advantages of trading on equity.

4. More suitable for investors who are cautious and conservative.

DEMERITS OF DEBENTURE

1. Risky affair for the company.
2. Not suitable for companies whose earnings fluctuate.
3. Every issue of debentures becomes more risky and costly on account of higher expectation of debentureholders..

Loan Financing

LOAN FINANCING

A firm may meet its financial requirements by taking both short-term loans/ credits and long term loan. Thus, under loan financing the sources included are:

1. Short-term loans/credits

   (a) Trade Credit

   (b)Commercial Banks

   (c) Public Deposits

   (d) Finance Companies

   (e) Accrual Accounts

   (f) Indigenous Bankers

   (g) Advances from Customers

   (h) Miscellaneous Sources

2. Long-term or Term Loans

TERM LOAN

- The term ‘Term Loan’ is used for both medium as well as long term loans.
- Medium term loans are for period ranging from 1 to 5 years while Long-term loans are for the period from 5 to 10 or 15 years
- There are two major sources of term loans:

1. Specialized Financial Institutions or development banks; and
2. Commercial Banks.

SPECIALIZED FINANCIAL INSTITUTIONS

1. Industrial Development Bank of India (IDBI)
2. Export Import Bank of India (EXIM Bank)
3. Industrial Investment Bank of India Ltd (IIBI)
4. Industrial Finance Corporation of India Ltd. (IFCI)
5. ICICI Ltd
6. Small Industrial Development Bank of India (SIDBI)
7. State Financial Corporations (SFCs)
8. State Industrial Development Corporations (SIDCs)
9. North-Eastern Development Finance Corporations Ltd. (NEDFi)
10. LIC, GIC, UTI, IDFC,

PROJECT FINANCING

PROJECT FINANCING

- Project financing is that scheme of financing of a particular economic unit in which a lender is satisfied in looking at the cash flows and the earnings of that economic unit as a source of funds, from which loan can be repaid and to the assets of the economic unit as a collateral for the loan.

- In the past, project financing was mostly used in oil exploration and other mineral extraction through joint ventures with foreign firms.

- The most recent use of project financing can be found in infrastructure projects, particularly in power and telecommunication projects.

PROJECT FINANCING

- The traditional form of financing is the *corporate financing* or the *balance sheet financing*.

- Under Corporate financing / Balance Sheet Financing, the lender looks at the cash flows and assets of the company as a whole company in order to service the debt and provide security.

- In case of project financing the lender looks at the cash flows and assets of the particular project in order to service the debt and provide security.

FEATURES OF PROJECT FINANCING

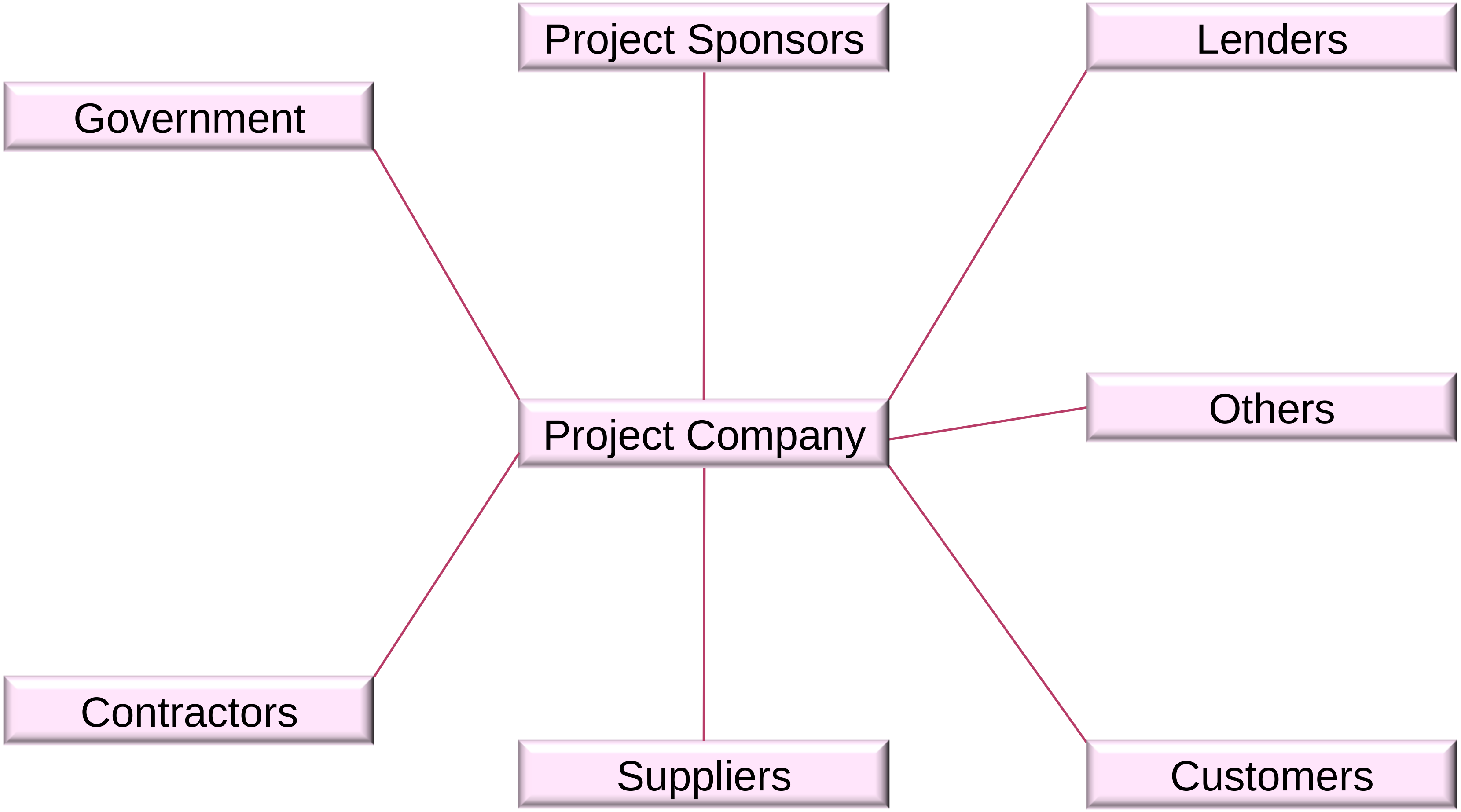
1. Separate Project Entity (Special Purpose Vehicle/ Enterprise)
2. Leveraged Financing
3. Cash Flows Separated
4. Collateral
5. Sponsor’s Guarantee

PROJECT FINANCING: CONTD…

Project financing is most appropriate for those projects which require large amount of capital expenditure and involve high risk. It is used by companies to reduce their own risk by allocating risk to a number of parties. It allows sponsors to:

1. Finance large projects than the company's credit and financial capabilities would permit;
2. Insulate the company's balance sheet from the impact of the project; and
3. Use high degree of leverage to benefit the equity owners.

MAIN PARTIES IN PROJECT FINANCE



LOAN SYNDICATION

LOAN SYNDICATION

1. Loan syndication involves commitments for term loans from the financial institutions and banks for financing a particular project.

2. In other words, in loan syndication, two or more financial institutions/ banks agree to finance a particular project.

3. One of the institutions may become a lead institution and bring about coordination in the financing arrangements of different financial institutions/ banks.

LOAN SYNDICATION: CONTD..

A loan syndication arrangement may be made in any of the following ways:

1. The borrower may directly make the loan application to a lead financial institution, which in turn gets in touch with other financial institutions/ banks interested in participating in the financial assistance to the borrower.

2. The borrower may approach a merchant bank to arrange for a loan syndication for him. The merchant bank discusses the matter with the financial institution interested in working as a lead financial institution.

LOAN SYNDICATION: CONTD..

Steps involved in a loan syndication arrangement can be put as follows:

1. Preparation of the project report.
2. Preparation of loan application.
3. Selection of the financial institution for loan syndication.
4. Receipt of sanction letter or letter of intent from the financial institution.
5. Compliance of the terms and conditions of the loan agreement by the borrower.
6. Documentation, and
7. Disbursement of loan.

Book Building

BOOK BUILDING

- Book building is a process wherein the issue price of the security is determined by the *demand and supply forces* in the capital market.

- In case of ordinary type of issue of capital, the price is determined and announced by the issuing capital, while in case of book building the issue price depends upon responses of the investors.

- Book building has been in existence in the international capital market, however, it is or recent origin for the Indian Captial Market.

BOOK BUILDING: CONTD…

Types of Book Building in India

An issuing company can make an issue of securities to the public through a prospectus under the book building process in the following manner:

1. 100% of the net offer to public through book building process,

or

2. 75% of the net offer through book building and 25% at the price determined through book building.

PROCESS OF BOOK BUILDING

1) In case of book building process, the issuing company appoints one of the lead merchant bankers as the book runner who prepares and submits a *draft prospectus* with the SEBI for approval. The prospectus includes full details relating to the issue except the price of the securities.

2) The book runner form a syndicate of brokers, merchant bankers and other financial institutions who in turn procure bids from their client on the basis of the draft prospectus.

3) The record of bids is then consolidated with reference to number of securities, price and the list of bidders.

4) The issue price is determined by the book runner and the issuing company on the basis of bids received from the investors and the careful evaluation of demand at various levels of prices.

SEBI GUIDELINES RELATED TO BOOK BUILDING

1) Book Building method can be used only when the issue exceeds Rs. 100 crores and one of the lead managers to issue has been appointed as the book-runner to the issue.

2) The bids will be accepted for a minimum of 5 days.

3) Trading must commence within 6 days of close of the issue, other wise interest at the rate of 15% shall be paid to investors.

4) Underwriting shall be mandatory to the extent of net offer to the public, by the syndicate members or the book runner.

5) The lead merchant banker shall prepare and file the offer document with SEBI.

LIMITATIONS OF BOOK BUILDING PROCESS

1) Can be appropriately used only for big issues.

2) Issuing company must be well known in the capital market because a new company may not get sufficient response through book building process.

NEW FINANCIAL INSTITUTIONS AND INSTRUMENTS

NEW FINANCIAL INSTITUTIONS AND INSTRUMENTS

1. Depositories
2. Factoring
3. Venture Capital
4. Credit Rating
5. Commercial Paper
6. Certificate of Deposit
7. Stock Invest; and
8. Global Depository Receipt (GDR)

DEPOSITORIES

DEPOSITORIES

- The term depository is defined as “a place where something is deposited for safe keeping”
- Depository is an organization where the securities of a shareholder are held in the form of electronic accounts, in the same way as a bank holds money.
- The depository holds electronic custody of securities and also arranges for transfer of ownership of securities on the settlement dates. This system is known as “Scripless Trading System.

DEPOSITORIES: CONTD…

The script based system of securities transactions involves enormous paper work involving certificates and transfer deeds.

The problems of script based securities are:

1. Bad deliveries due to signature difference
2. Mistakes in completion of transfer deeds,
3. Tearing and mutilation of certificates
4. Fake certificates
5. Cost of transfer stamps duty
6. Processing time taken by the company and
7. Postal delays and charges, etc.

DEPOSITORIES: CONTD…

The Scripless trading system provides many benefits to investors, which are as follows:

1. No bad deliveries;
2. Immediate transfer of shares;
3. No stamp duty on transfer of shares;
4. Paper work greatly reduced;
5. Eliminate risk associated with loss, theft, forgery, fire etc;
6. Reduction of transaction cost;
7. No courier/ postal charges; and
8. Dematerialization shares can be easily pledged/ hypothecated by making an application to the DP.

DEPOSITORIES: CONTD…

At present two players are rendering depositories services in India as follows:

1. National Securities Depositories Limited (NSDL); and

2. Central Depositories Services Limited (CDSL).

DEPOSITORIES: CONTD…

Constitutents of Depository System:

1. The Depository;
2. The Depository Participants;
3. The Issuing Company; and
4. The Investors.

FACTORING

FACTORING

- Many times sellers extend credit facilities to their clients in order to attract more customers. But there is some cost associated with it in terms of *funds blocked in the receivables* and the *interest paid on these funds*.

- While maintaining receivables, a firm may face two types of problems:

1. The problem of raising funds to finance the receivables; and
2. The problem relating to collection, delays and defaults of the receivables.

- In such a case, a firm can avail the services of specialist organizations engaged in receivables management. These specialist firms are known as *Factoring firms*.

FACTORING SERVICE PROVIDERS IN INDIA

RBI has authorised only four below listed public sector banks to do factoring in India:

1. State Bank of India through its subsidiary *SBI Factoring and Commercial Services Limited* *(Western Region)*;

2. Canara Bank through its subsidiary Canbank Factoring Ltd (Southern Region);

3. Punjab National Bank (Northern Region); and

4. Bank of Allahabad (Eastern Region).

FUNCTIONS OF A FACTOR

1. Collection of Receivables

2. Sales Ledger Management

3. Financing of Trade Debts

4. Credit Investigation and Undertaking of Credit.

BENEFITS OF FACTORING

1. Save the administration costs;
2. Reduce working capital needs and save interest on capital;
3. Improved liquidity position enables the firm to repay its debt without any delay;
4. Save time and energy to concentrate on managerial functions;
5. Factor on the basis of experience and specialization advises the firm on critical areas;
6. Improvement in current ratio after factoring is done;
7. Seller is relieved from the botheration of collecting debt;

Venture Capital

VENTURE CAPITAL

- A Venture refers to an undertaking involving more than normal business risk. The Venture Capital, therefore, refers to *investment of capital in relatively high-risk enterprises*.

- There are many business propositions where the risk involved is more than the normal risk of the firm. In such cases, the funds are not easily available as the common investors may not be willing to participate in a high-risk situation. Venture Capital as a source of financing has emerged as a necessity for the potentially growth undertakings of new entrepreneurs.

- Venture Capital, also known as high risk capital, is referred to an early stage financing of new enterprises.

CHARACTERISTICS OF VENTURE CAPITAL

1. Entrepreneurial Promoter
2. Innovative Technology
3. Longer Gestation Period
4. Long-Term investment with high degree of risk
5. Equity or quasi-equity investment
6. Nil liquidity of investment during early stages of financing

DISINVESTMENT OF VENTURE CAPITAL FINANCING

1. Offer for sale to public
2. Sale of Securities to promoter entrepreneur/ employees
3. Sale of holding to a new investor
4. Closure/ Liquidation/ Sale of Undertaking